



# Fact Sheet

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## Return Preparer Fraud

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Return Preparer Fraud generally involves the preparation and filing of false income tax returns by preparers who claim inflated personal or business expenses, false deductions, unallowable credits or excessive exemptions on returns prepared for their clients. Preparers may also manipulate income figures to obtain fraudulent tax credits, such as the Earned Income Tax Credit.

In some situations, the client (taxpayer) may not have knowledge of the false expenses, deductions, exemptions and/or credits shown on their tax returns. However, when the IRS detects the false return, the taxpayer must pay the additional taxes and interest and may be subject to penalties and criminal prosecution.

The IRS Criminal Investigation Return Preparer Program (RPP) focuses on enhancing compliance in the return-preparer community by engaging in enforcement actions and/or asserting appropriate civil penalties against unscrupulous or incompetent return preparers.

While most preparers provide excellent service to their clients, the IRS urges taxpayers to be very careful when choosing a tax preparer. You should be as careful as you would in choosing a doctor or a lawyer. It is important to know that even if someone else prepares your return, you are ultimately responsible for all the information on the tax return.

### Helpful Hints When Choosing a Return Preparer

Things to consider when choosing a return preparer include:

- Avoid tax preparers who claim they can obtain larger refunds than other preparers.
- Avoid preparers who base their fee on a percentage of the amount of the refund.
- Use a reputable tax professional that signs your tax return and provides you with a copy for your records.
- Consider whether the individual or firm will be around to answer questions about the preparation of your tax return months, or even years, after the return has been filed.

- Review your return before you sign it and ask questions on entries you don't understand.
- No matter who prepares your tax return, you (the taxpayer) are ultimately responsible for all of the information on your tax return. Therefore, never sign a blank tax form.
- Ask questions. Do you know anyone who has used the tax professional? Were they satisfied with the service they received?
- Tax evasion is a risky crime, a felony, punishable by 5 years imprisonment and a \$250,000 fine.

Taxpayers hearing claims from preparers offering larger refunds than other preparers are encouraged to check it out with a trusted tax professional or the IRS before getting involved.

### **Criminal Investigation Statistical Information**

	FY 2001	FY 2002	FY 2003	FY2004 (10/1-12/31)
Investigations Initiated	116	254	229	31
Prosecution Recommendations	73	89	169	36
Indictments/Informations	70	61	109	16
Convictions	63	64	67	24
Incarceration Rate*	92.9%	86.8%	83.7%	90.9%
Avg. Months to Serve	19	23	19	18

\*Incarceration may include prison time, home confinement, electronic monitoring, or a combination.

### **Significant Cases**

The following case summaries are excerpts from public record documents on file in the court records in the judicial district in which the cases were prosecuted.

#### **San Diego Return Preparer Sentenced**

On Dec. 8, 2003, in San Diego, Calif., Roosevelt Kyle was sentenced to 12 months in custody. A jury convicted Kyle for failing to file his personal income tax returns for the years 1995 through 1998. Evidence at trial showed Kyle earned over \$300,000 and prepared over 3,000 tax returns, but failed to file his own personal income tax returns. According to evidence presented in court, Kyle promoted tax avoidance seminars, at which he advised clients that they could permanently stop paying income taxes. Kyle also promoted the book "Vultures in Eagles Clothing," which claims the income tax laws are not applicable to U.S. citizens. This book was written by Lynne Meredith, who is under criminal indictment in the Central District of California for various tax crimes.

#### **Michigan Tax Service Owner Pleads Guilty to Defrauding IRS**

On Dec. 1, 2003, in Detroit, Mich., Leonard Hunter, an accountant and tax preparer who

owned and operated “Len Hunter Tax Service,” pled guilty to conspiring to defraud the IRS by filing false tax returns. On Nov. 24, 2003, Hunter’s employee, Paul Yeskey, also pled guilty to conspiring to defraud the IRS by filing false tax returns. During 1995 through mid-1998, Hunter and Yeskey focused on taxpayers that were unemployed, self employed, or minimally employed, who had dependents and had not filed a tax return for several years. Working with these taxpayers, Hunter and Yeskey would prepare false and fictitious tax returns, which showed a tax refund was due. Hunter would file the returns, listing his accounting service as the return address. When the refund checks were received, Hunter would assist the taxpayers in cashing these checks, sometimes receiving half of the value of the false refund check as payment for his services. The indictment indicated that over 79 returns were identified as part of the scheme, causing over \$130,000 in fraudulent refunds.

### **Man Sentenced in Income Tax Fraud**

On Sept. 15, 2003, in Greenville, N.C., Frank Lesters Bowden was sentenced to 84 months in prison, three years of supervised release and a \$500 special assessment for conspiracy and federal tax violations. His co-defendant, Vickie Jones Peele, was sentenced on May 28, 2003, and received a sentence of 18 months in prison, three years of supervised release and a \$500 special assessment. Bowden and Peele were each convicted of conspiracy to defraud the United States Treasury/IRS and four counts of making false, fictitious and fraudulent claims to the IRS for tax refunds. Evidence presented in court showed that Bowden and Peele prepared and filed IRS 1041 forms, which are used to report trust income, using the names of several taxpayers. The evidence further showed that none of the taxpayers for whom the forms were prepared and filed operated any trust accounts and that all of the figures on the 1041 forms were fabricated. Bowden offered his services for \$100 in cash as a preparation and processing fee, and sometimes charged an additional 10 percent of the refund for check cashing.

### **Ohio Tax Return Preparer Sentenced to Prison**

On April 15, 2003, in Cincinnati, Ohio, Nancy L. Wallace was sentenced to three years and four months in prison, followed by three years of supervised release and ordered to pay restitution to the IRS and her clients in the amount of \$935,867. Wallace pled guilty on Dec. 2, 2002 to one count of conspiracy and one count of aiding and assisting in the preparation and presentation of a false income tax return. Wallace admitted that she helped her clients to evade more than \$300,000 and that her actions cost the IRS almost \$950,000 in lost taxes. The defendant also admitted that she misappropriated and diverted her clients' funds for her personal use and failed to repay all of the funds. Wallace agreed as part of the plea to fully cooperate with IRS in the determination of her own tax liability, and to prepare and file within a reasonable time, accurate income tax returns for herself and any related entity for the years 1992 to 2001.

### **Where Do You Report Suspected Tax Fraud Activity?**

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest IRS office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.